

Resolution No. 2020-09-21-01

**A RESOLUTION OF THE CITY OF LAKEWAY, TEXAS
APPROVING INVESTMENT POLICY**

WHEREAS, the Lakeway City Council has reviewed the City’s Investment Policy for Fiscal Year 2019-20; and

WHEREAS, there is a continuing need to invest and reinvest the City’s funds in order to manage properly the fiscal affairs of the City and to comply with other pertinent resolutions and ordinances of the City; and

WHEREAS, The Public Funds Investment Act as amended (the “Act”) authorizes the City to invest and reinvest its available funds in authorized investments; and

WHEREAS, the Act requires the City to adopt a written investment policy regarding the investment of its funds, designating investment officers to carry out investment policies, and make various provisions related thereto: now therefore,

BE IT RESOLVED BY THE CITY COUNCIL OF LAKEWAY, TEXAS:

That the attached Investment Policy, for the City of Lakeway, Texas, is hereby approved and adopted.

PASSED AND APPROVED this 21st day of September 2020.

Sandy Cox, Mayor

ATTEST:

Jo Ann Touchstone, City Secretary

City of Lakeway Investment Policy

It is the policy of the City of Lakeway (the “City”) to invest public funds in a manner consistent with the Public Funds Investment Act, Chapter 2256, Texas Government Code (the “Act”) which places priority in the following order: preservation and safety of principal; liquidity; and yield

There is a continuing need to invest and reinvest City funds in order to manage properly the fiscal affairs of the City and to comply with pertinent Resolutions of the City Council. The intent of the City is to protect its assets, obtain a reasonable yield based on cash flow needs, and comply with all statutes. The earnings from the portfolio are to be used for public purposes.

The Act, as amended, authorizes the City to invest and reinvest its available funds in authorized investments, and the Act requires the City to adopt a written investment policy regarding the investment of its funds, designating investment officers to carry out said investment policies, and make various provisions related thereto.

The City’s investment policy shall be reviewed and adopted by the City Council on an annual basis. A written resolution approving that review and detailing any changes to the policy from the review will be passed and recorded. Updated council approved investment policies should be provided to the city’s authorized firms including the city’s depository and Local Government Investment Pools.

Section 1. Investment Standard.

The City’s investment policy shall require that all City funds not immediately needed for operating and administrative expenses be continually invested in one or more of the hereinafter specifically authorized investments under terms and conditions, and for maturities, which are consistent with the City’s financial objectives, strategies, and requirements.

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the expected income to be derived.

Section 2. Investment Objectives.

Investments shall be made in a manner that will provide the maximum security of principal invested. Policy limits and diversification of the portfolio are established to protect liquidity for daily cash flow needs. The receipt of a reasonable market rate of return will be secondary to the requirements for safety and liquidity. The portfolio shall be designed with the objective of regularly meeting or exceeding the average return on thirteen-week Treasury bills. This is considered a benchmark for riskless investment transactions.

The investment objectives of the City, in order of priority, are (i) the safety of principal to preserve capital, (ii) liquidity for timely payment of debts with due regard for unforeseeable circumstances,

and (iii) a yield representative of market conditions, consistent with the judgment and care that a person of prudence, discretion, and intelligence would exercise in the management of that person's own affairs, not for speculation but for investment.

Section 3. Investment Strategies.

Investment of the City's financial assets shall utilize the following strategies:

(a) Investments above the core of the General Fund, Special Revenue Fund(s), and the Enterprise Fund shall be highly liquid to assure anticipated cash requirements are met. The core is defined as money reasonably expected to exceed current cash flow requirements. The core may be invested as authorized in Section 4 of this policy. The primary investment strategy for these operating funds is to assure that cash flows are matched with adequate investment liquidity. A secondary strategy is to maintain a portfolio, which will experience minimum volatility during economic cycles. These funds shall not have an investment with a stated maturity greater than two years.

(b) Investments for the Capital Project Fund(s) shall primarily be to assure that anticipated payment dates for contractual obligations are matched with adequate investment liquidity.

(c) Investment for Bond Funds are controlled by their ordinance, resolution or indenture, and Federal and State law. Bond documents must be examined for each issue, for potential differences with this policy concerning investment instruments, maximum maturity or average life restrictions, call dates or sinking fund redemptions, and applicable arbitrage yields and rebate liability. Provisions contained in the bond documents will supersede provisions of this policy.

(d) Investment of the Debt Service Fund(s) shall be made with the primary purpose of matching investment maturities with debt service payment requirements. Investments purchased shall not have a stated final maturity date which exceeds the corresponding debt service payment date.

Section 4. Authorized Investments.

The financial assets of the City may be invested and reinvested in any of the following types of investments:

(a) direct obligations of the United States which have maturities not to exceed two (2) years that are backed by the full faith and credit of the United States Government (Treasury Bills). It will be the policy of the City that all Treasury Bills shall be purchased using the "Delivery vs. Payment" method through the Federal Reserve System. By so doing, City funds are not released until the City has received, through the Federal Reserve wire, the securities being purchased.

(b) certificates of deposit maturing in twenty-four (24) months or less issued by a state or national bank which is a member of the FDIC and a main office or branch office in this state having capital and surplus of not less than \$50 million, provided that any amount in excess of FDIC limits shall be secured by the pledge of obligations of the US Government and its instrumentalities; and,

(c) Local Government Investment Pools that do not invest in commercial paper , which meet the requirements of Sec. 2256.016 through Sec. 2256.018 of the Act with a maximum average dollar-weighted maturity not to exceed ninety (90) days and a rating of no less than AAA or AAAM by one of the nationally recognized rating agencies.

(d) FDIC insured or collateralized interest bearing money market accounts from any FDIC insured bank in Texas.

An investment that requires a minimum rating does not qualify as an authorized investment during the period the investment does not have a minimum rating. The Investment Officer shall take all prudent measures that are consistent with the City's investment policy to liquidate the investment(s) that does not have the minimum rating (2256.021). In accordance with Section 2256.005(b), the Investment Officer shall monitor rating changes in current investments by keeping a monthly record of ratings issued by nationally recognized rating agencies.

Section 5. Investment Officers.

(a) The City Manager, Assistant City Manager, City Treasurer (Assistant City Treasurers in the absence of the City Treasurer), and Finance Director are each designated as Investment Officers of the City and authorized and directed to be responsible for the investment of City funds. The concurrence of the Treasurer shall be required for all investments, and investments which exceed \$100,000 shall require the concurrence of the City Manager. Under normal conditions, all investments in Local Government Investment Pools, shall be deemed to have the concurrence of the City Treasurer and City Manager. The Investment Officers are authorized and directed to deposit, withdraw, invest, transfer and manage available City funds consistent with the provisions hereof. The authority granted herewith is valid and effective until rescinded by the City in writing, until the expiration of the officer's term or the termination of the officer's employment with the City.

(b) The Investment Officers shall comply with the training requirements contained in Sec. 2256.008 of the Act wherein each Investment Officer shall attend at least ten (10) hours of investment training, related to their responsibilities, from an independent source within twelve (12) months after taking office or assuming duties. The City Manager, Assistant City Manager, City Treasurer, Assistant City Treasurers, and Finance Director are required to receive at least ten (10) PFIA hours of education every two fiscal years. Training shall include education in investment controls, security risks, strategy risks, and market risks and any other topics as required by the Act.

(c) A monthly accounting of each of the investment transactions and compilation of all invested City funds which includes sufficient information to identify all investments, their maturity, yield and price, the Investment Report, shall be signed by the Investment Officers. The Investment Officers shall submit quarterly reports comprised of the prior three months Investment Reports, together with the Local Government Investment Pool details to the Council of the City as prescribed by Section 2256.023 of the Act. In conjunction with its annual audit, the Auditor shall perform a compliance audit of adherence to the City's investment policies.

(d) An Investment Officer (i) who has a personal business interest with any entity seeking to sell an investment to the City or (ii) who is related by blood or marriage within the second degree to a person seeking to sell an investment to the City, shall file a statement disclosing the same information as required by Section 2256.005(i) of the Act. Investment officers and any person involved in the investment process shall refrain from personal and business activities involving any of the City's custodians, depositories, or investment advisors which may influence the officer's ability to conduct their duties in an unbiased manner.

(e) Investment Officers may authorize the purchase or sale of an authorized investment orally, in writing, electronically, or by a combination thereof, and shall obtain a safekeeping receipt of investments and place the same in the City's records. Investments shall be made with judgement and care – under circumstances then prevailing – which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived. The standard of prudence to be used by investment officials shall be the "prudent person", which means the officer may not be an expert but is obligated to act responsibly and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments. It is the policy of the City that the Investment Officers perform their duties in accordance with the policies and procedures set forth in this policy. The Investment Officers of the City shall be personally indemnified in the event of investment loss provided the Investment Policy is followed.

(f) All investments which are not Local Government Investment Pools or 100% U. S. Treasury obligations and all investments with maturities exceeding 180 days shall require the concurrence of the City Treasurer and City Manager.

(g) Not less than three quotes shall be obtained for any proposed investments in excess of \$100,000 which are not placed in 100% U. S. Treasury Obligations or Local Government Investment Pools or which have maturities exceeding 180 days.

Section 6. Investment Marketing Agents.

A copy of this Resolution shall be presented to any person seeking to sell an authorized investment to the City, and the registered principal of the entity such person represents shall execute a written instrument complying with the provisions of Sec. 2256.005(k) of the Act. The Investment Officers may not purchase securities from a person or entity who has not delivered said instrument.

Section 7. Incumbency Certificate.

The City shall issue, and update as necessary, an Incumbency Certificate specifying the persons who are its Investment Officers. Any entity dealing with the City may continuously rely on this policy and the persons named in the Incumbency Certificate unless and until they receive written notification of any amendment to this policy or change in the persons authorized to act for the City. No entity shall be liable for any action taken pursuant to the provisions of this policy or the

instructions of the persons named in the latest Incumbency Certificate by the City until written notification of a change therein is received.

Section 8. Pledged Collateral

Collateral requirements are established in Texas by the Public Funds Collateral Act, Chapter 2257, Texas Government Code, for all public Texas funds deposits. Collateral ensures adequate protection of City money deposited in the financial institution designated by the City to hold the deposits of public money. The Finance Department reviews, tracks, and reconciles collateral pledged by the financial institution to secure public deposits. Both proposed and current pledged collateral are continuously evaluated for compliance with all applicable statutes, policies, and depository and custodial agreements. Pledged securities are monitored to assure that acceptable, valid, and marketable instruments secure public funds at all times.

Deposits of city money may be secured by securities of the United States, its agencies or instrumentalities which shall be accepted at market value. Collateral on deposits which exceed the FDIC coverage shall be held in a third party safekeeping institution. An Investment Officer shall obtain a written list of securities pledged to the City and is authorized to release or permit the substitution thereof as long as the Treasurer concurs.

Section 9. Depository

At least every five years, a banking services depository shall be selected through a competitive Request For Proposal (RFP) in accordance with the Texas Local Government Code Section 105. In selecting a depository, the services, cost of services, credit worthiness, earnings potential, and collateralization by the institutions shall be considered. If securities require safekeeping, the RFP will request information on safekeeping services. The depository contract will be proofed for collateral if balances exceed the FDIC insurance balance.

All time and demand deposits in any depository of the City shall be insured or collateralized at all times in accordance with this policy.

Other banking institutions from which the City may purchase certificates of deposit will also be designated as a depository for depository/collateral purposes. All depositories will execute a depository agreement and have the Bank's Board or Bank Loan Committee pass a resolution approving the agreement if collateral is required.

Section 10. Cash Flow Forecasting

The Finance Director shall establish a system of internal controls which will be reviewed annually with the independent auditor of the City. The controls shall be designed to prevent loss of public funds due to fraud, employee error, misrepresentation by third parties, unanticipated market changes, or imprudent actions by employees or counter-parties.

As an internal control, cash flow forecasting is designed to protect and sustain cash flow requirements for the City. Supplemental to the financial and budgetary systems, the Finance Director will maintain a cash flow forecasting process designed to monitor and forecast cash

positions for investment purposes. Cash flow analysis will include the historical researching and monitoring of specific revenues and expenditures to obtain overall cash position and patterns.